

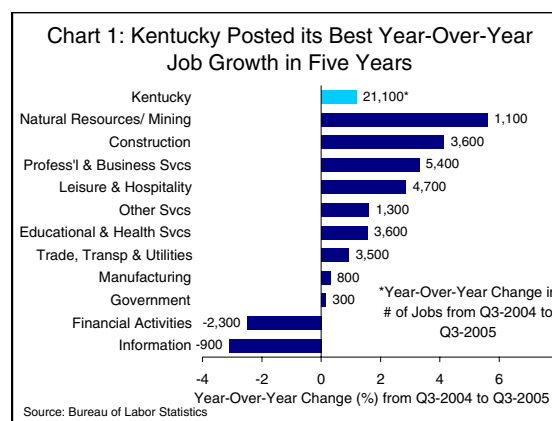
# FDIC State Profile

Winter 2005

## Kentucky

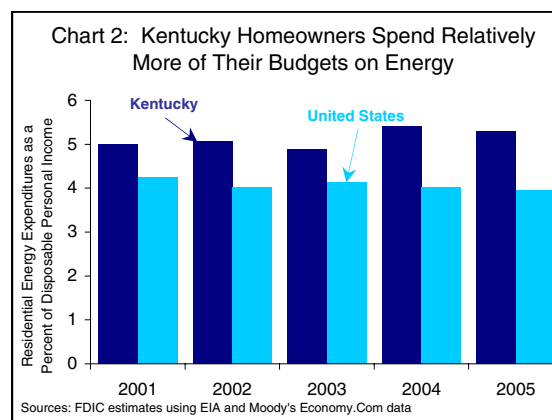
### Kentucky experienced widespread employment growth

- Kentucky's labor market continued to strengthen. In the year ending third quarter 2005, employment grew by 21,100 jobs, or 1.2 percent, the greatest year-over-year growth since second quarter 2000.
- All sectors, except financial activities and information, added jobs. The professional and business services, leisure and hospitality, education and health services, and construction sectors added 82 percent of all the new jobs in the state (see Chart 1).
- Louisville** experienced the largest gain with 7,000 new jobs, mostly in leisure and hospitality and construction.



### Foreclosures and bankruptcies remained high despite improving household financial conditions.

- Homes in the state appreciated 6.3 percent from third quarter 2004 to third quarter 2005, compared to 12 percent nationally, a situation that limits Kentucky homeowners' ability to tap home equity to the same extent as those in other parts of the nation.
- Recent improvements in statewide employment opportunities helped per-capita personal income grow 5.0 percent from second quarter 2004 to second quarter 2005; however, per capita personal income remained slightly below the national rate of 5.5 percent. Housing affordability could decline should personal income continue to grow slower than home values.
- Kentucky's single-family home permits dropped 7.3 percent during the year ending third quarter, the largest decline since first quarter 2001. Permit activity for single-family home building varied throughout the state, but was generally lower. For example, in **Bowling Green**, permits increased 36.7 percent, while in **Clarksville** single-family permits fell 22.3 percent for the year ending third quarter 2005.
- Mortgage foreclosure rates remained relatively high compared to the nation. Second quarter annualized per capita personal bankruptcy filings rose to nearly 8.0 per



**Table 1: Lower Noninterest and Provision Expenses Help Community Institutions' Performance**

Income statement contribution (percent of average assets)	3 months ended Sep 30		Percentage Point Change
	2004	2005	
Net Interest Income	3.74	3.74	0.00
Noninterest Income	0.84	0.88	0.04
Noninterest Expense	-2.97	-2.94	0.03
Provision Expense	-0.25	-0.18	0.07
Security Gains & Losses	0.02	0.04	0.02
Pretax Net Income	1.38	1.54	0.16
Income Taxes	-0.30	-0.34	-0.04
Net Income (ROA)	1.08	1.20	0.12

Source: FDIC

Note: Merger-adjusted data for Kentucky's Community Institutions

thousand people in Kentucky versus 6.2 per thousand nationwide, ranking Kentucky 12th in the nation.

### Higher energy prices could strain Kentucky households.

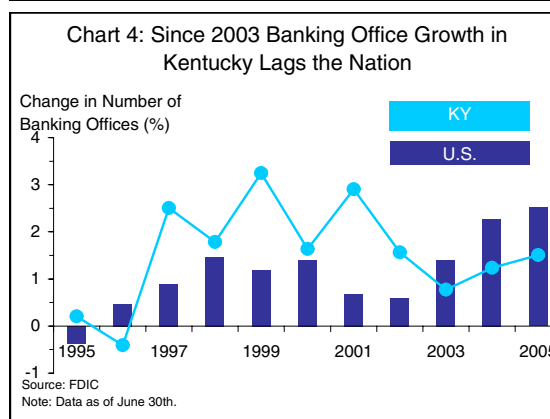
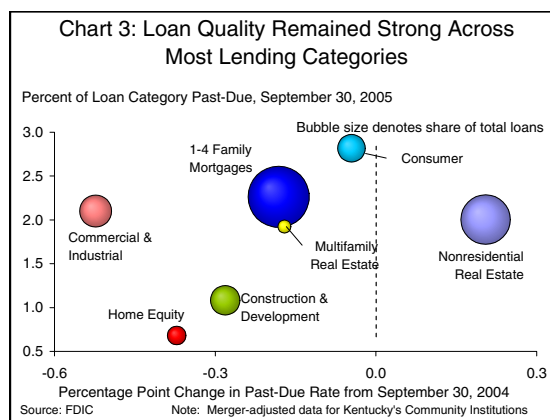
- In 2003, Kentucky had the lowest residential electricity costs in the nation according to the U.S. Department of Energy. However, the largest Kentucky energy provider, LG&E Energy, has announced that it will increase customer natural gas prices by 64 percent this winter.<sup>1</sup>
- Only 51 percent of the state's homes use natural gas as their principal heating fuel, which ranks 31st among all states.<sup>2</sup> Compared to many Midwest states, one might expect Kentucky homeowners to fair relatively well this winter. However, because Kentucky's per capita income is relatively low, homeowners spend 5.3 percent of their disposable income on energy expense, compared to the national average of 3.9 percent (see Chart 2).<sup>3</sup> Consequently, many Kentucky households may feel a disproportionate impact from higher energy prices.

### Profitability continues to improve at Kentucky community institutions.<sup>4</sup>

- Kentucky's community banks posted record net income of \$96 million for the three months ending September 30, 2005. On a year-over-year basis, aggregate profitability (return on assets) improved substantially. Though net interest margins remained unchanged, lower operating expenses and provisions for loan losses combined with higher noninterest income and securities gains (all as a percent of average assets) to boost net income (see Table 1).
- Because of a fairly strong core funding base, the state's community institutions have been able to delay increases in funding costs as interest rates have climbed over the past year. Funding costs increased by 45 basis points, year-over-year, compared with a 200 basis-point increase in the Federal Funds rate. However, further flattening in the yield curve could lead to margin compression.
- The past-due loan rate declined 13 percentage points from third quarter 2005, indicating continued strong loan quality among Kentucky's community banks. All major loan segments improved except nonresidential real estate (see Chart 3).

### Kentucky's relatively slow bank office growth reflects its slower population growth.

- After outpacing the nation for six years, Kentucky bank office growth (including branches and banking offices) has trailed the nation for the past three years. The state's office growth ranked 34<sup>th</sup> among the states between June 2004 and June 2005 (see Chart 4).
- At mid-year 2005, Kentucky was home to 1,750 bank offices, 26 more than a year earlier and 267 more than a decade ago. During the past decade, the number of people per banking office in Kentucky fell from 2,621 in 1995 to 2,385 in 2005, and remained well below the national median of 3,243. This gap may portend continued lower branch expansion in the state in upcoming years.
- Institutions headquartered outside Kentucky have greatly increased their ownership share of branches located in the state. Out-of-state institutions owned 34 percent of Kentucky's branches at June 2005, compared to 21 percent at June 2001.



<sup>1</sup>LG&E Energy Newsroom News Release, September 30, 2005.

<sup>2</sup>U.S. Census Bureau, 2004 American Community Survey.

<sup>3</sup>Data points include actual data for 2001 and FDIC generated estimates for the years 2002-2005 using Energy Information Administration's (EIA) residential energy price and consumption forecasts and Moody's Economy.Com population and disposable personal income history and forecasts.

<sup>4</sup>Community institutions are insured institutions with less than \$1 billion in assets, excluding new (less than three years old) and specialty banks.

## Kentucky at a Glance

**ECONOMIC INDICATORS** (Change from year ago, unless noted)

<b>Employment Growth Rates</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.2%	1.0%	0.8%	0.8%	-0.3%
Manufacturing (15%)	0.3%	0.6%	-0.8%	-0.6%	-3.5%
Other (non-manufacturing) Goods-Producing (6%)	4.4%	3.8%	0.7%	0.9%	-1.5%
Private Service-Producing (62%)	1.4%	1.2%	1.7%	1.5%	0.7%
Government (17%)	0.1%	-0.1%	-1.2%	-1.0%	-0.7%
Unemployment Rate (% of labor force)	5.7	5.7	5.1	5.3	6.2
<b>Other Indicators</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Personal Income	N/A	5.7%	5.2%	5.5%	3.0%
Single-Family Home Permits	-7.2%	6.6%	-1.4%	5.9%	4.8%
Multifamily Building Permits	-59.5%	-5.6%	82.0%	53.1%	-4.7%
Existing Home Sales	9.5%	5.4%	-0.6%	10.1%	10.3%
Home Price Index	6.3%	6.2%	5.5%	5.1%	3.8%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	10.50	7.98	6.86	6.79	7.08

**BANKING TRENDS**

<b>General Information</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Institutions (#)	226	230	236	237	243
Total Assets (in millions)	53,824	52,283	49,682	51,466	47,465
New Institutions (# < 3 years)	5	5	4	5	7
Subchapter S Institutions	46	46	49	49	43
<b>Asset Quality</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Past-Due and Nonaccrual Loans / Total Loans (median %)	1.82	1.79	1.95	2.07	2.41
ALLL/Total Loans (median %)	1.28	1.31	1.32	1.29	1.29
ALLL/Noncurrent Loans (median multiple)	1.84	1.92	1.52	1.82	1.49
Net Loan Losses / Total Loans (median %)	0.10	0.10	0.13	0.17	0.20
<b>Capital / Earnings</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Tier 1 Leverage (median %)	9.73	9.70	9.49	9.51	9.17
Return on Assets (median %)	1.18	1.19	1.06	1.10	1.05
Pretax Return on Assets (median %)	1.54	1.55	1.49	1.40	1.38
Net Interest Margin (median %)	4.08	4.05	4.06	4.01	3.95
Yield on Earning Assets (median %)	6.34	6.08	5.80	5.77	6.02
Cost of Funding Earning Assets (median %)	2.18	2.02	1.72	1.73	2.06
Provisions to Avg. Assets (median %)	0.12	0.13	0.17	0.17	0.21
Noninterest Income to Avg. Assets (median %)	0.77	0.75	0.73	0.68	0.72
Overhead to Avg. Assets (median %)	3.03	2.96	2.91	2.96	2.87
<b>Liquidity / Sensitivity</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Loans to Assets (median %)	68.2	68.7	69.0	68.8	65.7
Noncore Funding to Assets (median %)	22.4	21.8	21.1	20.6	20.3
Long-term Assets to Assets (median %, call filers)	19.8	21.1	20.9	19.7	21.0
Brokered Deposits (number of institutions)	49	47	41	43	36
Brokered Deposits to Assets (median % for those above)	3.8	4.1	3.0	3.5	3.0
<b>Loan Concentrations (median % of Tier 1 Capital)</b>	<b>Q3-05</b>	<b>Q2-05</b>	<b>Q3-04</b>	<b>2004</b>	<b>2003</b>
Commercial and Industrial	53.1	56.8	51.9	54.2	54.1
Commercial Real Estate	164.3	165.1	158.8	163.7	154.6
Construction & Development	25.0	24.0	23.3	22.9	21.3
Multifamily Residential Real Estate	4.9	5.1	6.0	5.5	5.2
Nonresidential Real Estate	116.7	121.7	121.0	119.5	116.0
Residential Real Estate	276.0	278.4	288.2	292.7	287.9
Consumer	51.9	53.7	58.7	57.0	66.7
Agriculture	38.3	39.8	37.2	33.9	42.4

**BANKING PROFILE**

<b>Largest Deposit Markets</b>	<b>Institutions in Market</b>	<b>Deposits (\$ millions)</b>	<b>Asset Distribution</b>	<b>Institutions</b>
Louisville, KY-IN	53	19,289	< \$250 million	188 (83.2%)
Lexington-Fayette, KY	34	6,683	\$250 million to \$1 billion	32 (14.2%)
Huntington-Ashland, WV-KY-OH	25	3,566	\$1 billion to \$10 billion	5 (2.2%)
Clarksville, TN-KY	15	2,365	> \$10 billion	1 (0.4%)
Owensboro, KY	14	1,744		